

*Florida
Surplus Lines
Service Office*

2008 ANNUAL REPORT



**SERVING
FLORIDA'S
SURPLUS LINES
COMMUNITY**

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*Florida
Surplus Lines
Service Offices*

On Course





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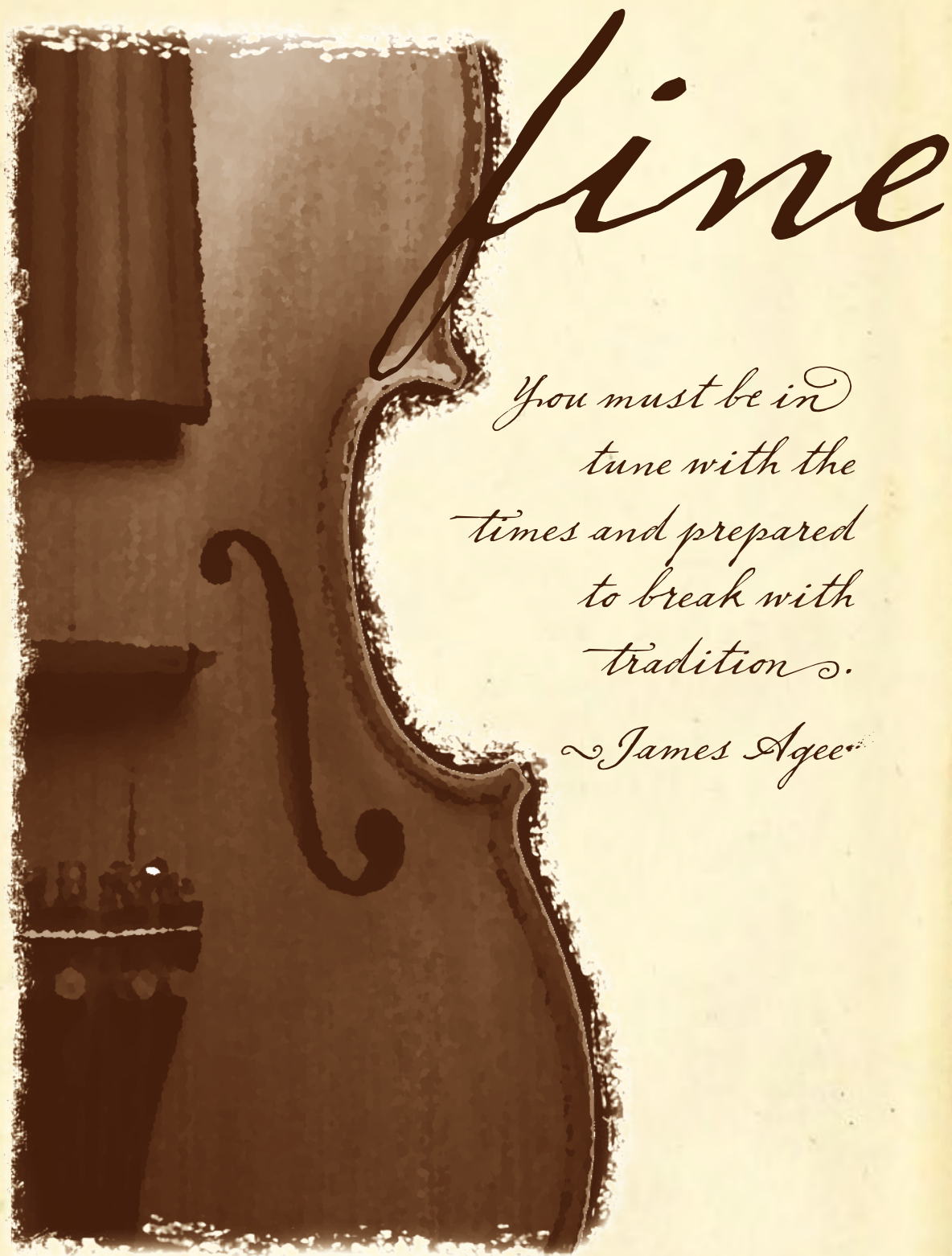
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*You must be in
tune with the
times and prepared
to break with
tradition.*

~ James Agee ~

tuned

Craftsmanship is the acquirement of mastery skills through meticulous training. Whether it is the art of boat making, writing or the tuning of an instrument, craftsmanship is a quality that can only be gained through diligent practice and perfection of technique.

By this definition, the Florida Surplus Lines Service Office works to be a craftsman of the surplus lines industry. We have endeavored to polish our customer service skills, refine our communication methods and enhance our technological proficiencies for the betterment of the organization and the industry.

While dexterity and performance determine the level of a craftsman's expertise, the foundation of something classic is often defined by the journey of creation. And while this document represents the achievements of a year that has passed, it signifies only one of the many chapters that have yet to be written.



From the Chairman



The presence of the Florida Surplus Lines Service Office has been monumental in the advancement of tools and resources for the Florida surplus lines industry for the past 10 years. And the year 2008 was no different, as it marked the achievement of several valuable accomplishments for the Service Office.

One of its most important accomplishments during 2008, was the Service Offices' realization of its 10-year milestone. An open house was held to honor the completion of a decade of devoted service to the surplus line community and was attended by members, vendors, and affiliates who were instrumental in reaching this highly coveted goal.

During 2008, the Service Office utilized technological innovation to better its products and services in order to provide customers with optimal quality and ease of use. Such enhancements included a newly redesigned website that showcased recently developed tools and updated navigation capabilities.

Web-based seminars were also prepared and deployed as a mechanism to acquaint large customer groups with educational opportunities and informational services. These seminars provided information relative to the Surplus Lines Information Portal (SLIP) and agent compliance requirements, and were integrated into the Service Office's education program as a viable resource to deliver information based on multiple customer needs.

The Service Office staff also worked diligently to increase the efficiency and performance capabilities of the Agent and Insurer versions of SLIP throughout the year. Enhancements of these products continue to place them as premier filing applications, streamlining the processing and maintenance of data submissions for Florida's surplus lines industry.

*Knowledge, like timber, shouldn't
be much use till they are seasoned.*

— Oliver Wendell Holmes

Wisdom

These represent just a few of the many achievements garnered by your Service Office during the course of 2008, and you may learn more about these and other items through the pages of this 2008 Annual Report. All of the services and products outlined in this report have come to fruition after having been initially mapped out in the Service Office's three-year strategic planning process. Members should be aware that their feedback serves as key measurements in this planning process, as the Service Office continues to benchmark customer satisfaction with their operations' success.

I would like to extend my congratulations to the Board of Governors for their continued contributions to the Service Office. I would also like to acknowledge Mike Riordan for his 10 years of dedicated service as he completed his tenure with the Board of Governors in 2008. Thank you for supplying our organization with your priceless wisdom and talent, and we wish you well in all your future undertakings. We would also like to welcome Bruce Bowers of Hull & Company and Sean Shaw, Florida's Insurance Consumer Advocate, to the Board of Governors and look forward to a long and prosperous working relationship with them.

It is always a pleasure to recognize those who have shown great success in their work. I want to personally congratulate FLSO Executive Director, Gary Pullen as well as each and every FLSO staff member on a fulfilling 2008 year. Congratulations of a job well done and we look forward to a rewarding 2009.

Although 2009 will surely yield new and diverse challenges, both the Board and the Service Office will continue to strive for excellent and superior service. I value this opportunity to serve you as chairman and I am looking forward to a year as full of success and accomplishment as the last.

Sincerely,



R.C. Chaffin
Chairman



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From the Director



The process of aging red wine requires substantial amounts of patience, diligence and effort. Young red wines can be harsh and occasionally undrinkable. However, age renders a smooth refined wine full of nuance and rich in taste. And like so many things that better with age, the Florida Surplus Lines Service Office has matured into a seasoned organization, full of experience, direction and conviction for its customers. As veterans of the surplus lines community, we have had time to reflect on our past endeavors in order to obtain insight for future decisions.

In the summer of 2008, we saw a need for advancements for the FLSO website based on customer desires and suggestions. In September, those requests became reality as the Service Office rolled out the newly modernized website. The refurbished website included customized pages containing information pertinent to each customer group and enabled users to locate tools, products, publications, and programs based on their specific needs. I would like to thank all of those individuals who assisted our office in making these improvements to our website and helping us maintain quality service.

The FLSO staff has also embraced the opportunity of supplying seminars over the broad spectrum of the Internet, delivering information to newly licensed surplus lines agents as well as existing and potential users of the Surplus Lines Information Portal (SLIP). These types of seminars represent the technological capabilities of connecting with people around the world virtually and simultaneously. In economic times such as these, these types of technologies provide cost efficient solutions that will not jeopardize the delivery of quality customer services and products.



*Ideas are refined
and multiplied
in the commerce
of minds...*

Gaston Bachelard



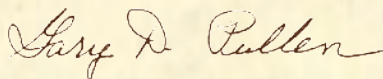
We reached a notable achievement in 2008 by celebrating our 10-year anniversary of serving Florida's surplus lines industry. Thank you to all of the supporters who made our 10-year anniversary such a memorable experience. It is because of your dedication and encouragement that our office has gained this milestone of success.

As providing quality services and products to our customers outlines the very nature of this organization, capturing and understanding their needs serves as the very backbone for advancement and progress. Through activities such as our annual customer satisfaction survey, we are able to make changes to our products and services based on the desire of our customers. I take this opportunity to thank our customers, for their time and initiative in voicing their needs and providing the future direction for our organization.

I would like to extend a well-deserved thank you to our Chairman, R. C. Chaffin, as well as all of the members of our Board of Governors for their continued guidance throughout 2008. Your leadership has been an essential part of our triumphs, and we look forward to the future armed with the proficiency of our past.

Having the right people in an organization is the single most important element in maintaining exceptional service. Only through their talents and hard work can our best attributes be obtained. With that being said, I take this moment to thank all of our Service Office staff members, past and present, for their contributions to the organization and the industry. May we collectively continue to uphold the standards as set by our customers and remain strong in our commitment of service to each other and this industry for many years to come.

Sincerely,



Gary D. Pullen
Executive Director

efined

Marketplace Monitoring

Success for all types of organizations is built upon a set of fundamental principles, many of which include service, commitment and teamwork. For more than 10 years, the Service Office has aimed at cultivating a long, lasting relationship with its customers for the purposes of creating a credible and healthy marketplace. Through the efforts of teamwork on behalf of both the Service Office staff and Florida's surplus lines community, this relationship is upheld through the deployment of several innovative processes that work together to evaluate and improve compliance.

To ensure fairness and conformity with the law, the Service Office operates two separate programs that monitor and evaluate data submissions from both agents and insurers in order to maintain credibility in the marketplace: the Variance Analysis Program and the Compliance Review Program. With the inception of the Variance Analysis and the Compliance Review programs, the Service Office staff combines both the services of technology and human resources to monitor the marketplace.



Stability

Technology affords the Service Office the ability to examine large amounts of data in order to compare the filing of surplus lines agents and IPC filers with the data submitted by surplus lines insurers. When discrepancies between these entities are detected, the Variance team works to determine which party is responsible for making the corrected filing and who is assessable for applicable fees, taxes and penalties. Through the 2008 year, this team collected on a total of 247 policies which represented more than \$87.6 million dollars in unreported premium and \$4 million in unpaid fees and penalties.

A secondary means of tracking the surplus lines industry is through the agent Compliance Review Program. The Compliance Review Program compares a sampling of a surplus lines agent's policy information to the transaction data submitted to the Service Office. In addition to facilitating compliance among Florida's surplus lines community, the Compliance Review Program also works to provide educational benefits to enhance the quality of service provided in the marketplace.

During 2008, the Compliance Review Program conducted 279 reviews, finding 354 unfiled policies from 63 agents. These reviews resulted in the location of more than \$4.9 million in unfiled premium and \$162,081 in taxes, fees and penalties. While the primary focus of the Service Office's Compliance Review Program is to educate and inform agents of potential weaknesses and strengths, agents may be referred to the Department of Financial Services if found in gross non-compliance.

The Compliance Review Program yielded an aggregate score of 92.8% for the 2008 year. This score served as a basic indicator of compliance and quality among the agents reviewed during the year and can be attributed to many factors, most notably the hard work achieved by Florida's surplus agents as they focused on keeping compliant in their requirements and maintaining a credible marketplace.

Similar to the grading concept found in the Compliance Review Program, the Agent Report Card provides another means for agents to measure their compliance with the Surplus Lines Law. With a concentration on highlighting strengths and opportunities, agents received reports cards grading them on four key data elements which included the percentage of transactions with no outstanding Transactions-in-Question (TIQ); percentage of submissions submitted timely versus total number of submissions; percentage of affidavits submitted timely; and percentage of transactions submitted timely. The Agent Report Card was established to provide agents with an overview of their filing procedures, emphasizing strengths and exposing areas that require improvement.

Through these programs, the diligence of the Service Office staff, and the cooperation of the surplus lines agent force, Florida's surplus lines marketplace remained a credible resources and viable option for those seeking insurance in the state of Florida in 2008.

*But all of this success came at the
end of a long climb.*

-Michael N. Castle

Classic



*A classic is classic,
not because it conforms
to certain structural rules,
or fits certain definitions...*

*it is classic because of a
certain eternal and
irrepressible freshness.*

~Edith Wharton

Assistance

While technological advancements are often recognized in organizations as a measure of achievement, the accomplishments of people themselves are vital and cannot be overlooked. The ongoing interactions between the Service Office and its customers provide the backbone for change, achievement and success. And in 10 years, very little has altered the Service Office's philosophy on providing quality customer service. It's about people helping people.

The distribution of "New Agent Packets" to newly licensed surplus lines agents provides the Service Office with the means to prepare its customers for their start in the surplus lines marketplace. In 2008, the Service Office welcomed 122 new agents on board, and presented each with a copy of the *Agent Procedures Manual*, *Agency Disaster and Recovery Planning Guide*, and various brochures. This initial step in establishing contact with newly licensed agents serves as a way to build lasting relationships with customers.

Additionally, all surplus lines insurers seeking eligibility to market products in the state of Florida must first submit their applications to the Service Office. During 2008, 12 insurers sent applications to the Service Office for review, of which, nine were reviewed and sent to the Department of Financial Services/Office of Insurance Regulation with a letter requesting eligibility. As of December 31, 2008, eight applications were approved.

In 2007, a 1.4% Emergency Assessment was levied by Citizens Property Insurance Corporation to recoup losses from the 2004 and 2005 hurricane seasons. The Service Office assisted its customers by paying the emergency assessment from surplus collections on the Citizens' '04 regular assessment through December 15, 2008. As funds then expired, staff assisted customers with various questions relative to the collection of the 1.4% Emergency Assessment.

During the summer months, the Service Office distributed surveys to its leading customer groups, including surplus lines agents, surplus lines insurers, agent submission contacts, agency accounting contacts and IPC filers in an effort to gauge customer satisfaction. Participants responded with varying levels of agreement/disagreement to statements regarding the Service Office's current, as well as proposed products, services, and resources. The overall satisfaction rating was more than 97% for staff assistance across all five customer groups. Participant comments and feedback provide insight into opportunities for improvements which were used during the Service Office's strategic planning process.

Feedback, countless phone calls and emails from customers paved the way for modifications to existing services, including the Service Office's filing systems. Throughout the year, the Service Office made various improvements to its filing platforms and worked diligently to prepare for major releases of new versions of SLIP in January 2009. These improvements were made possible through the collaborative efforts of both Service Office staffers and its customers.

For the past decade, the Service Office customer has been a valuable part of the process for change, improvement and advancement. The Service Office recognizes its many customers for their activism in that process and for their confidence in the Service Office to provide outstanding customer assistance.

*A business, like an automobile, has to
be driven in order to get results.*

B. C. Forbes



Outreach

The Service Office has functioned for more than a decade as a source of advice and counsel for member agents, industry members, state government and consumers. Through targeted activities that promote knowledge of its products and services, the Service Office fuels awareness, stimulates compliance and empowers the voice of customers' needs.

Through the attendance of industry tradeshows and conferences, the Service Office is afforded the opportunity to meet and greet its industry members as well as provide information concerning Florida's surplus lines market to interested participants. During 2008, the Service Office attended an array of tradeshows and industry meetings including: Florida Association of Insurance Agents (FAIA), National Association of Professional Surplus Lines Offices (NAPSLO), National Association of Insurance Commissioners (NAIC), American Association of Managing General Agents (AAMGA), and the Western States Conference. At the 2008 Annual AAMGA Conference, the Service Office's efforts to promote industry awareness and consumer protection were rewarded, as the Service Office received an AAMGA Advertising and Marketing Award for its 2007 public service billboard campaign "When Mother Nature Threatens, Shutter Up!"

The Service Office also exercised its role as a representative of Florida's surplus lines market as an education tool, delivering presentations through its Speaker's Bureau Program. Staff members provided presentations to a wide variety of participants at several different venues including the Florida Surplus Lines Association's annual conference and to members of the Florida Department of Financial Services Consumer Services' offices. The Service Office also lent its expertise to the Department of Financial Services by providing office representatives to participate on the Florida Surplus Lines Law Licensing Examination Committee during its annual test review.

The Service Office continues to frequent both national and statewide conferences as a way to stay involved and aware of industry affairs. In combination with this type of attendance, the Service Office also actively participates in industry meetings on state and national platforms. In 2008, the Service Office participated in meetings relative to national developments regarding agent licensing uniformity and multi-state tax collection, including various meetings of the Surplus Lines Law Group throughout the year.

Lastly, the Service Office ended its year by capping off a major milestone with an Anniversary Open House. With attendance by the FLSO Board of Governors, member agents, representatives of the Florida Department of Financial Services and the Office of Insurance Regulation, industry partners and local vendors, the Service Office commemorated its 10 years of service to Florida's surplus lines industry. The Service Office provided each attendee with a copy of its newly printed Commemorative Book, which outlined the office's 10-year history and featured photographs and a timeline.

As it has done for the past 10 years, the Service Office continues to reach out to its various customer groups through dedicated resources and a seasoned workforce. In a motion to constantly improve, refine and perfect its work processes, the Service Office continues to cultivate its services for the betterment of Florida's surplus lines insurance market.

Information

The tremendous growth of technology over the past decade has changed the way we work and live. Communication has served as an evolving viaduct for the distribution of information from one source to another. In an age when the modes for dissemination are virtually limitless, we are constrained only by our own inhibitions to embrace these advancements. From the beginning, the Service Office has utilized available technologies like the World Wide Web to its advantage as a means to deliver information to its broad customer base. Yet, in a time when old mediums such as paper and pen seem out-of-date, the Service Office employs a mixture of classic media with new "know-how" in its development of a rounded communication plan.

At the heart of the Service Office's information hub is its website at www.fslso.com. Since the website's construction in 1998, it has remained a steadfast mechanism to relay information to FLSO's many customers. While the adaption of the Service Office website has been constant since its initial release, it received a major renovation in late 2008. In conjunction with its 10-year anniversary, the Service Office crafted a new website to include customer-segmented categories with applicable links to various resources and tools as a means to facilitate easier site navigation.

In addition to segmenting the website by customer groups, the Service Office incorporated several new features which included a Tax/Fee/Assessment Calculator, an FAQ (Frequently Asked Questions) rating mechanism, and an IPC subscription service for electronic news bulletins for IPC filers.

The release of the new Tax/Fee/Assessment Calculator served as one of FLSO's numerous web-based resources geared towards both the surplus lines agent and the IPC customer. Additional tools, such as FLSO's Market Data Reports and Insurer Financial Data programs, continued to serve as useful devices for surplus lines agents, retail agents and consumers.



Everybody starts at the top, and then has the problem of staying there. Lasting accomplishment, however, is still achieved through a long, slow climb and self-discipline.

Helen Hayes

The Service Office devoted time in 2008 to meet with agents and agency support staff in organized focus groups to gather feedback on its existing Market Data Reports and Insurer Financials programs. Through these focus groups, the Service Office was able to solicit customer input regarding the use and usability of the Market Data Reports and the Insurer Financials program and made modifications to both information programs. Customer feedback provided new direction relative to the navigation of the reporting criteria, labeling of the different reports, and a better understanding of customer expectations.

As technology continues to advance, so must the thinking behind practices of information marketing. Through such concourses as telephone, telefax, postal mail, email and the World Wide Web, the Service Office has continued to exhibit flexibility in order to effectively deliver information to its customers.

One effort took the Service Offices' messaging to the skies. In 2008, FLSO's public awareness and billboard campaign, "When Mother Nature Threatens, Shutter Up" wrapped up its yearlong run in the beginning of June. The billboard campaign, which launched in May 2007, was designed to heighten awareness of hurricane preparedness and the My Safe Florida Home Program. The reaction sought from drivers was to go online and look up the URL placed on the billboard, "www.shutterupflorida.org." From here, visitors read several statistics on hurricane preparations before being automatically pushed to "www.mysafefloridahome.com." Based on the Traffic Audit Bureau's statewide average statistics, approximately 45 million people viewed the 31 poster boards and five vinyl boards that were posted around the state of Florida. In addition, the www.shutterupflorida.org site received 1,415 hits, of which 1,051 visitors were then redirected to the My Safe Florida Home website.

In conjunction with various key customer requirements, the Service Office strives to deliver swift, quality information. *The Advisor*, the Service Offices' 12-page newsletter, was distributed to interested subscribers on a quarterly basis and served as an outlet for Service Office staff to communicate service updates, product creation and improvement, prevailing issues and industry changes.

For information on the go, the Service Office utilized the speed and spread of email through the deployment of its "eNews" and "eAlert" bulletin services. During 2008, the Service Office distributed a total of 19 "eNews" bulletins and five "eAlert" bulletins regarding the collection of the Citizen's Emergency Assessment, the release of the newly designed website, information relative to AIG, Service Office preparations for Tropical Storm Fay, SLIP enhancements, the 2008 Continuing Education Schedule, insurer updates, database maintenance and much more.

Not to be underscored was the continued partnership that the Service Office hailed with Infinity Software Development, Inc. as one of its external vendors responsible for the success and constant development of the Regulatory Administrative Platform of Insurance Data (RAPID) system and the Surplus Lines Information Portal (SLIP). The perpetual upkeep and maintenance of the RAPID system affords for the aggregate information as provided in the Market Data Reports and the Insurer Financial Data reports programs. Through this collaborative relationship, the Service Office continues to stand on the forefront of data collection and conservancy.

Disciplined
2008 Annual Report D-15

Education

Acknowledgement that professional growth comes at the hands of continued learning has been a sustaining factor in the sensibility of the Service Office's education service. Upholding the core principle that a learned workforce is a direct parallel to a credible marketplace, the Service Office has continued to frame, fashion and forge its education programs to promote industry compliance. This continual progression serves as a testament to the Service Office staff's goal to create and grow a well-rounded learning curriculum.

Since accessibility plays a major role in the delivery of a quality educational program, the Service Office ventured into the waters of web-based technology in order to deliver training seminars to participants around the country. With major releases of the Surplus Lines Information Portal (SLIP) and the Agent and Insurer Software on the horizon, the Service Office staff looked to the World Wide Web to provide training seminars throughout the latter half of 2008.

Through hour long "webinars," the Service Office staff provided presentations to 117 participants from various states, noting upcoming enhancements to FLSO's various filing mechanisms. Additionally, the Service Office delivered presentations covering surplus lines agent responsibilities, filing requirements and its available products and services during two, one-hour webinars entitled "Welcome New Surplus Lines Agent" to 33 attendees.

In alignment with its objective to create a multifaceted education experience, the Service Office conducted educational seminars both inside physical classrooms and virtually over the web.

In 2008, the Service Office delivered a four-hour classroom based education course entitled "Do You Know the Code: Florida's Surplus Lines Law and Mitigation Options." This course was originally developed in 2007 to provide students with an opportunity to satisfy the education requirement for one-hour of Mitigation Options/Premium Discounts as mandated by the Department of Financial Services. Along with one-hour on the topic of mitigation techniques and premium discounts, this course also incorporated three hours on the subject of Florida's surplus lines law, the programs, services and resources of the FLSO, and an interactive student retention game. This course was taught in various locations around the state including West Palm Beach, St. Petersburg, Melbourne, and Pensacola.

Outside of the classroom, the Service Office also provided learning opportunities to its customers via its online education program. The Service Office remained Florida's only online option for surplus lines pre-licensing qualification credit, and its 60-Hour Surplus Lines Pre-Licensing Qualification Course was accessed by more than 50 students seeking to fulfill their 60-hour requirement.

Other online offerings included three continuing education courses: "Florida's Surplus Lines Rules and Regulations," a three-hour course covering the Surplus Lines Law; "Illegal Insurance Entities; Knowing the Difference," a two-hour course exploring the differences between the terms unauthorized insurers and illegal insurance entities; and "The Retail Agents Role in the Surplus Lines Marketplace," a two-hour course on the responsibilities of the producing agent in the placement of risks within the surplus lines market. In addition to these continuing education courses, the Service Office also supported its

Certification of Online Agent Software Training (COAST) program, which served as a training resource on the use of the Agent Submission Software.

During 2008, staff reported more than 2,000 education hours to the Department of Financial Services stemming from its online and classroom-taught students. In its journey to create a diversified and viable learning experience for its customers, the Service Office continues to seek new methods of delivery for the deployment of its education program.



focused

*Our thoughts create our reality –
where we put our focus is the
direction we tend to go.*

~ Peter McWilliams ~

Finance

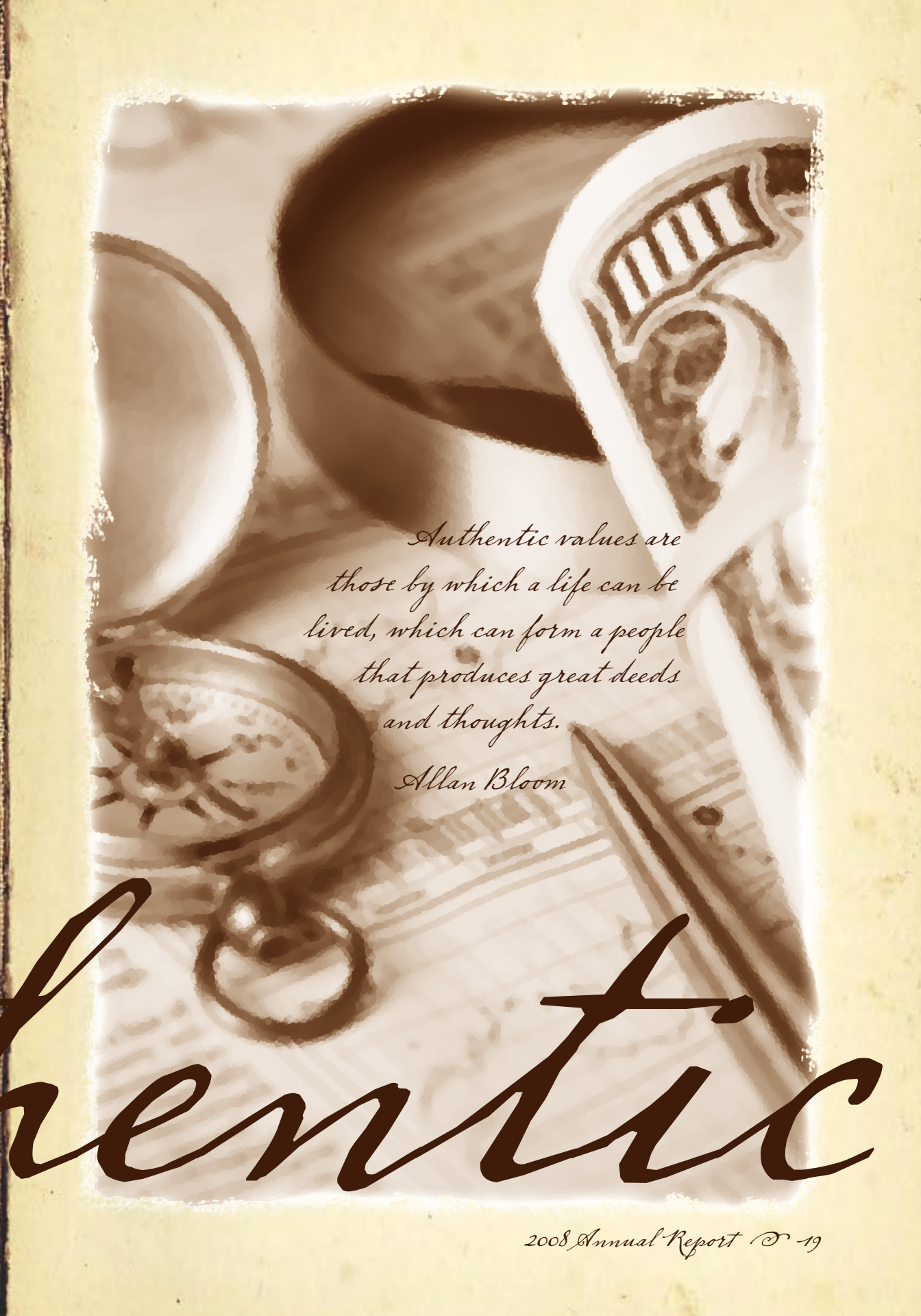
Responsibility for the integrity and objectivity of the financial information presented in this Annual Report rests with the FLSO management. This was reiterated within the satisfactory audit opinion received on the Florida Surplus Lines Service Office's financial statements for the fiscal years ended December 31, 2008 and December 31, 2007. Effective strategic planning, prudent budgeting and spending coupled with good internal controls are definite reasons for this success.

In 2008, the Service Office reported a decrease in premium of more than \$421 million. As Florida experienced a softening of the market in 2008, in both the admitted and non-admitted markets, Florida's surplus lines industry experienced premium declines of 9.1% in 2008 compared to a growth of 3.14% in 2007. The Service Office billed on the premium subject to taxes and fees, as submitted by agents and IPC filers, in the amounts of \$194,670,863 and \$4,064,408 respectively. These billed amounts represent a \$16,602,111 decrease in surplus lines taxes to the state of Florida and a decrease of \$1,812,033 in charges for services.

During the year ending December 31, 2008, the Service Office generated \$4,093,047 in revenues, a decrease of \$ 2,237,215 from the previous year. With respect to the operating expenses, the Service Office spent \$4,891,340 during the year ending December 31, 2008, an increase of \$293,251 from year 2007.

Revenues and expenditures created a decrease in total net assets to \$30,800,417 from \$30,944,796 representing a decrease \$144,379 over the prior year. A decrease in the surplus lines premiums in 2008 fiscal year resulted in a significant decrease in the operating revenues and in a decrease in the net assets of the Service Office.

The Statement of Financial Position is in conformity with Generally Accepted Accounting Principles (GAAP) used in the United States. FLSO retains independent accountants to audit its financial statements. The independent auditors provided a clean and unqualified opinion with regards to these financial statements. The annual independent audit of the FLSO's books and records are available upon request for members to review.



*Authentic values are
those by which a life can be
lived, which can form a people
that produces great deeds
and thoughts.*

Allan Bloom

Authentic

Financial Statistics

as of December 31, 2008

Statement of Net Assets

ASSETS

Current assets:	
Cash and cash equivalents	\$22,107,190
Accounts receivable	41,919
Accrued interest income	53,162
Investments	<u>570,000</u>
Total current assets	22,772,271
Long-term investments	3,553,146
Property and equipment	4,787,653
Deposits	<u>11,810</u>
TOTAL ASSETS	<u>\$31,124,880</u>

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable and accrued expenses	\$312,648
Amounts held for the account of others	<u>11,815</u>
Total current liabilities	<u>324,463</u>
Net assets:	
Invested in capital assets, net of related debt	4,787,653
Unrestricted	26,012,764
Total net assets	<u>30,800,417</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$31,124,880</u>



Statement of Revenues, Expenses, and Changes in Net Assets

OPERATING REVENUES:	
Charges for services	\$4,015,446
Interest and finance charges on service fees	52,914
Other Income	24,687
Total operating revenues	<u>4,093,047</u>
OPERATING EXPENSES:	
Administrations and support	1,977,209
Education and outreach	865,494
Agent and insurer relations	1,594,967
Depreciation and amortization	453,670
Total operating expenses	<u>4,891,340</u>
Operating (loss) income	(798,293)
NONOPERATING REVENUES (EXPENSES):	
Investment interest	576,971
Rental income	153,270
Rental expenses	<u>(76,327)</u>
Total nonoperating revenues (expenses)	<u>653,914</u>
(Decrease) increase in net assets	(144,379)
Net assets at beginning of year	<u>30,944,796</u>
NET ASSETS AT END OF YEAR	<u>\$30,800,417</u>

Statement of Cash Flows

OPERATING ACTIVITIES	
Operating (loss) income	(\$798,293)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Deprecation and amortization	453,670
Changes in operating assets and liabilities:	
Accounts receivable	1,327
Accounts payable and accrued expenses	219,176
Amounts held for the account of others	<u>(34,374)</u>
Net cash provided by operating activities	<u>(158,494)</u>
FINANCING ACTIVITIES	
Purchase of property and equipment	(198,653)
Other receipts (payments)	<u>76,943</u>
Net cash used in capital and related financing activities	<u>(121,710)</u>
INVESTING ACTIVITIES	
Interest income	605,601
Purchase of investments	(4,320,365)
Sales of investments	<u>9,405,813</u>
Net cash provided by investing activities	<u>5,691,049</u>
Net increase in cash and cash equivalents	5,410,845
Cash and cash equivalents at beginning of year	<u>16,696,345</u>

Generated Taxes and Fees

2006 - 2008 Generated DFS Taxes

YEAR	Q1	Q2	Q3	Q4	TOTAL
2008	\$49,601,605	\$63,392,258	\$45,129,206	\$36,547,795	\$194,670,864
2007	\$55,074,139	\$64,226,632	\$50,876,212	\$41,108,754	\$211,285,737
2006	\$47,547,124	\$56,635,680	\$55,396,704	\$47,119,878	\$206,699,386

2006 - 2008 Generated Service Office Fees

YEAR	Q1	Q2	Q3	Q4	TOTAL
2008	\$1,034,536	\$1,324,940	\$933,581	\$771,351	\$4,064,408
2007	\$2,292,446	\$1,639,520	\$1,080,905	\$853,177	\$5,866,048
2006	\$2,382,618	\$2,426,641	\$2,280,494	\$1,935,310	\$9,025,063

Premium Comparisons

	Agent Premium	IPC Premium	Total Premium
Q1-2008	\$850,863,647	\$197,928,056	\$1,048,791,703
Q2-2008	\$1,193,414,290	\$267,976,367	\$1,461,390,657
Q3-2008	\$830,932,486	\$174,039,808	\$1,004,972,294
Q4-2008	\$646,120,910	\$133,213,628	\$779,334,538
Year-to-Date	\$3,521,331,333	\$773,157,859	\$4,294,489,192
Q1-2007	\$1,007,207,299	\$183,158,440	\$1,190,365,739
Q2-2007	\$1,305,470,332	\$209,793,897	\$1,515,264,229
Q3-2007	\$893,112,059	\$204,100,383	\$1,097,212,442
Q4-2007	\$757,576,870	\$154,717,631	\$912,294,501
Year-to-Date	\$3,963,366,560	\$751,770,351	\$4,715,136,912
Q1-2006	\$841,977,094	\$98,129,157	\$940,106,251
Q2-2006	\$1,213,809,775	\$147,708,097	\$1,361,517,872
Q3-2006	\$1,031,878,943	\$201,436,059	\$1,233,315,002
Q4-2006	\$862,564,858	\$176,088,314	\$1,038,653,172
Year-to-Date	\$3,950,230,670	\$623,361,627	\$4,573,592,297

For all submission comparisons, the transaction information in this annual report is extracted from data submissions received by surplus lines agents, independently procured coverage (IPC) filers and insurers. The transaction information is based upon the submission date of policy transactions submitted as of 05/26/09.

Agent Transaction Submissions

2008		2007		2006	
Q1-2008	276,171	Q1-2007	299,399	Q1-2006	298,100
Q2-2008	302,758	Q2-2007	319,028	Q2-2006	329,980
Q3-2008	289,019	Q3-2007	305,528	Q3-2006	317,707
Q4-2008	257,584	Q4-2007	276,472	Q4-2006	292,512
Year-to-Date	1,125,532	Year-to-Date	1,200,427	Year-to-Date	1,238,299

Diskette, Internet, and IPC Submissions

<i>2008</i>	Diskette	Internet	IPC
Q1-2008	0	23,974	4,358
Q2-2008	0	26,973	5,650
Q3-2008	0	26,711	4,878
Q4-2008	0	24,318	4,643
Year-to-Date	0	101,976	19,529

<i>2007</i>	Diskette	Internet	IPC
Q1-2007	1	19,295	4,072
Q2-2007	-	22,178	4,720
Q3-2007	-	24,978	4,672
Q4-2007	-	22,510	4,444
Year-to-Date	1	88,961	17,908

<i>2006</i>	Diskette	Internet	IPC
Q1-2006	19	15,316	2,739
Q2-2006	11	20,113	3,773
Q3-2006	2	20,270	3,644
Q4-2006	9	19,251	4,033
Year-to-Date	41	74,950	14,189

Compliance Reviews

	Reviews Done	No. of Policies Reviewed	No. of Transactions Reviewed
Q1	66	2,234	2,517
Q2	59	1,717	1,978
Q3	81	2,187	2,451
Q4	73	1,665	1,865
YT	279	7,803	8,811

Compliance Review Unfiled Policies

	No. of Agents	No. of Policies Collected On	Total Premium	Taxes	Tax Penalties	Service Fees	Service Fee Penalties
Q1	15	121	\$1,426,577	\$40,245	\$9,395	\$3,294	\$826
Q2	14	37	\$531,672	\$25,096	\$4,128	\$1,036	\$209
Q3	14	107	\$2,219,664	\$23,939	\$3,157	\$4,758	\$954
Q4	20	89	\$776,868	\$35,065	\$7,980	\$1,591	\$408
YT	63	354	\$4,954,780	\$124,345	\$24,660	\$10,679	\$2,397

Average Score by Quarter

	2008		2007		2006	
Q1	93.7	Q1	94.5	Q1	93.5	
Q2	94.7	Q2	94.8	Q2	90.6	
Q3	92.2	Q3	93.3	Q3	93.7	
Q4	91.2	Q4	92.9	Q4	90.6	

Variance Statistics



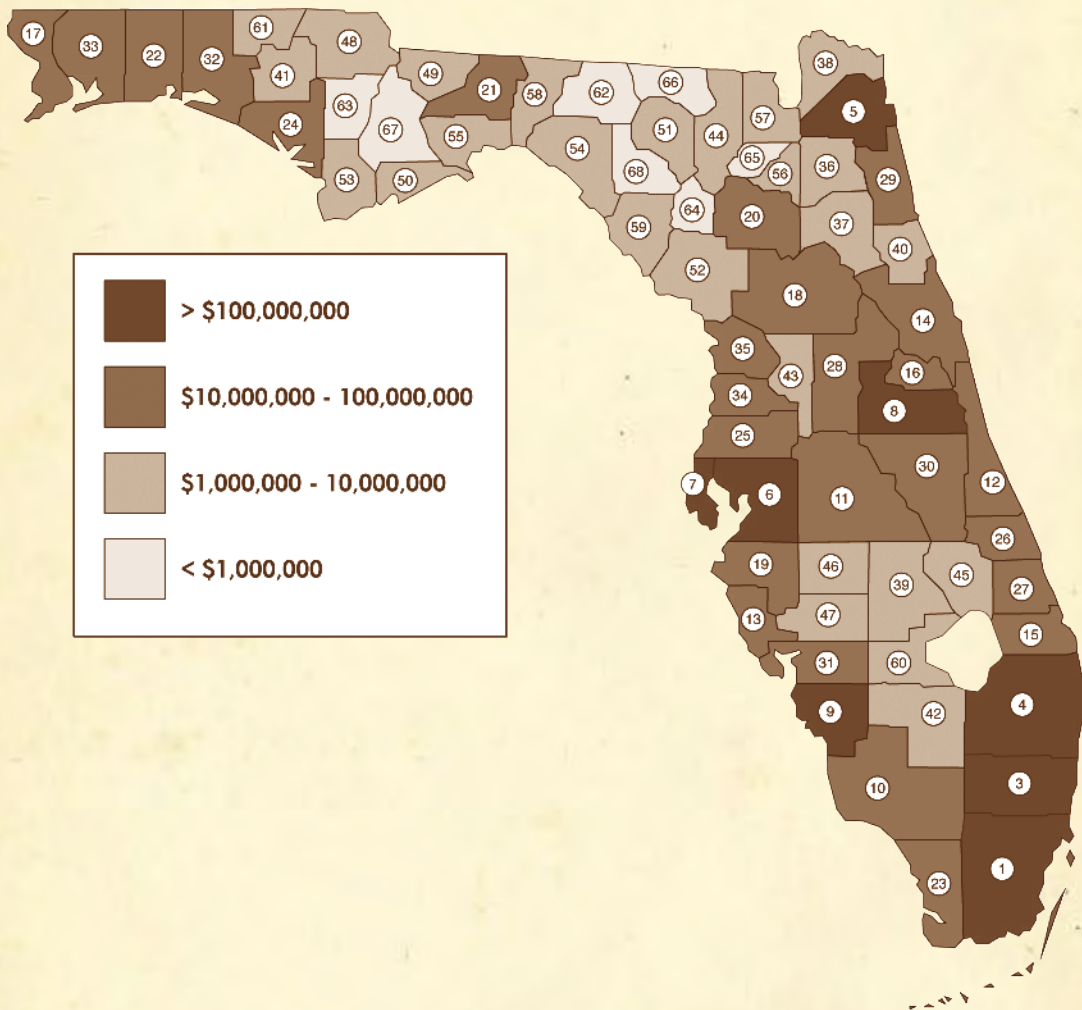
	No. of Policies Collected	Total Premium	Taxes	Tax Penalties	Service Fees	Service Fee Penalties
Q1	54	\$19,740,170	\$967,259	\$74,968	\$28,902	\$4,445
Q2	89	\$26,385,341	\$1,187,852	\$88,940	\$44,137	\$5,578
Q3	67	\$24,739,640	\$926,480	\$54,004	\$26,692	\$2,916
Q4	37	\$16,793,518	\$597,767	\$29,336	\$15,072	\$1,119
YT	247	\$87,658,669	\$3,679,358	\$247,248	\$114,803	\$14,058

	Policy Count	Premium	Fees/Taxes/Penalties
2008	247	\$87,658,669	\$4,055,467
2007	261	\$98,320,389	\$4,113,084
2006	71	\$16,901,141	\$748,775

2008 Website Visitor Sessions

First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Yearly Total
27,424	19,621	37,944	20,511	105,500

Premiums by County



2008 Premiums by County

COUNTY	TOTAL PREMIUM	COUNTY	TOTAL PREMIUM
1 Miami-Dade	\$765,008,828	36 Clay	\$9,918,385
2 Multiple Counties	\$506,982,264	37 Putnam	\$9,731,522
3 Broward	\$436,848,606	38 Nassau	\$8,504,285
4 Palm Beach	\$314,474,995	39 Highlands	\$7,087,295
5 Duval	\$281,046,569	40 Flagler	\$6,847,927
6 Hillsborough	\$251,609,487	41 Washington	\$6,210,527
7 Pinellas	\$224,664,764	42 Hendry	\$5,063,771
8 Orange	\$199,047,247	43 Sumter	\$4,538,077
9 Lee	\$115,766,434	44 Columbia	\$4,077,716
10 Collier	\$95,535,841	45 Okeechobee	\$3,953,742
11 Polk	\$75,218,849	46 Hardee	\$3,648,789
12 Brevard	\$69,831,911	47 Desoto	\$2,904,625
13 Sarasota	\$66,522,895	48 Jackson	\$2,680,136
14 Volusia	\$61,712,441	49 Gadsden	\$2,573,737
15 Martin	\$54,810,449	50 Franklin	\$2,514,714
16 Seminole	\$54,002,598	51 Suwannee	\$2,481,273
17 Escambia	\$51,275,705	52 Levy	\$2,392,461
18 Marion	\$49,982,257	53 Gulf	\$2,345,011
19 Manatee	\$48,211,029	54 Taylor	\$1,997,900
20 Alachua	\$47,194,429	55 Wakulla	\$1,722,731
21 Leon	\$43,220,535	56 Bradford	\$1,717,881
22 Okaloosa	\$41,167,015	57 Baker	\$1,337,535
23 Monroe	\$41,135,419	58 Jefferson	\$1,315,801
24 Bay	\$40,624,343	59 Dixie	\$1,261,647
25 Pasco	\$36,112,734	60 Glades	\$1,213,466
26 Indian River	\$35,610,890	61 Holmes	\$1,126,602
27 St. Lucie	\$30,719,073	62 Madison	\$995,592
28 Lake	\$30,169,670	63 Calhoun	\$961,187
29 St. Johns	\$22,233,320	64 Gilchrist	\$846,546
30 Osceola	\$21,755,602	65 Union	\$777,539
31 Charlotte	\$18,639,811	66 Hamilton	\$654,260
32 Walton	\$17,033,495	67 Liberty	\$593,602
33 Santa Rosa	\$15,052,742	68 Lafayette	\$334,371
34 Hernando	\$14,843,787	TOTAL	\$4,294,489,192
35 Citrus	\$12,092,505		

The policy premium information contained in this annual report is extracted from data submissions received by surplus lines agents, independently procured coverage (IPC) filers and insurers. The policy premium information is based upon the submission date of policy transactions submitted. This information was current as of 5/26/09. The Florida Surplus Lines Service Office provides this data for informational purposes only; it does not constitute an endorsement for any service, company or person offering any product or service.

Top 25 Coverages by Premium Reported

COVERAGE	PREMIUM
1000- Commercial Property	\$1,959,613,421
5000- Commercial General Liability	\$577,128,913
1005- Commercial Package (Property & Casualty)	\$275,417,157
2002- Homeowners - HO-3	\$143,010,838
6001- Miscellaneous Medical Professionals	\$71,264,438
5001- Commercial Umbrella Liability	\$70,042,116
5006- Excess Commercial General Liability (Not Umbrella)	\$68,051,825
7003- Miscellaneous E&O Liability	\$67,353,986
2009- Dwelling Property	\$63,097,084
1001- Builders Risk	\$56,390,165
1013- Windstorm &/Or Hail	\$45,232,697
6000- Hospital Professional Liability	\$36,869,105
5012- Pollution & Environmental Liability	\$34,407,327
2012- Windstorm	\$33,963,753
6003- Physician/ Surgeon	\$31,519,864
3006- Personal & Pleasure Boats & Yachts	\$30,653,221
1006- Condominium Package (Commercial)	\$27,255,421
4001- Inland Marine (Personal)	\$25,137,467
2008- Dwelling Flood	\$25,099,019
2005- Condo Unit- Owners HO-6	\$24,379,131
7000- Architects & Engineers Liability	\$24,113,318
7002- Lawyers Professional Liability	\$23,498,713
6002- Nursing Home Professional Liability	\$23,351,793
1008- Difference in Conditions	\$23,041,397
4000- Inland Marine (Commercial)	\$21,599,856
TOTAL	\$3,781,492,026

The policy premium information contained in this annual report is extracted from data submissions received by surplus lines agents and independently procured coverage (IPC) filers. The policy premium information is based upon the effective date of the policy transaction submitted. All other policy premium amounted to \$512,997,166. This information was current as of 5/29/09. The Florida Surplus Lines Service Office provides this data for informational purposes only; it does not constitute an endorsement for any service, company or person offering any product or service.

Top 25 Insurers by Premium Reported

INSURER	PREMIUM
Lloyd's Underwriters At, London	\$865,038,717
Lexington Insurance Company	\$605,977,748
Empire Indemnity Insurance Company	\$182,685,810
Scottsdale Insurance Company	\$171,506,364
Landmark American Insurance Company	\$143,864,409
Westchester Surplus Lines Insurance Company	\$110,425,628
Axis Surplus Insurance Company	\$93,295,958
Arch Specialty Insurance Company	\$80,448,180
Chubb Custom Insurance Company	\$78,931,195
Columbia Casualty Company	\$70,584,319
Colony Insurance Company	\$66,857,294
Geovera Specialty Insurance Company F/K/A USF&G	\$63,074,307
American International Specialty Lines Insurance Company	\$60,969,426
Steadfast Insurance Company	\$58,697,238
Mount Vernon Fire Insurance Company	\$57,619,885
Mt. Hawley Insurance Company	\$57,027,135
Essex Insurance Company	\$50,330,520
Lantana Insurance Ltd	\$48,819,054
Evanston Insurance Company	\$44,956,404
Max Specialty Insurance Company	\$43,608,552
Century Surety Company	\$40,690,086
Nautilus Insurance Company	\$37,904,867
Great Lakes Reinsurance (U.K.)	\$37,672,795
Indian Harbor Insurance Company	\$31,563,359
Qbe Specialty Insurance Company	\$30,939,864
TOTAL	\$3,133,489,113

The policy premium information contained in this annual report is extracted from data submissions received by surplus lines agents and independently procured coverage (IPC) filers. The policy premium information is based upon the effective date of the policy transaction submitted. All other policy premium amounted to \$1,161,000,079. This information was current as of 5/29/09. The Florida Surplus Lines Service Office provides this data for informational purposes only; it does not constitute an endorsement for any service, company or person offering any product or service.

Tid-Bits

- ✦ In 2008, there were 165 eligible insurers in Florida: 34 were alien and 131 were foreign insurers. No insurers were removed from the eligibility list by consent order and eight surplus lines insurers were added.
- ✦ Has 1,064 licensed member agents and 720 submitting agents.
- ✦ There were 122 newly licensed surplus lines agents and FLSO members in 2008.
- ✦ Total reported premium by member agents: \$3,521,331,333.
- ✦ Total reported taxes by member agents: \$156,012,971.
- ✦ Permanent office location in Tallahassee, Florida.
- ✦ FLSO was established by the Florida Legislature in 1997, under the "Dana Roehrig Act."
- ✦ Toll-free assistance: 1-800-562-4496.
- ✦ Our Internet address is: www.fslso.com.
- ✦ Offered five continuing education classes in the state.
- ✦ FLSO has 22 employees with more than 250 combined years of insurance experience.
- ✦ The FLSO participated in five community service events during 2008, which included the Dale Pullen Scholarship Fund Golf Tournament, the Susan G. Komen Passionately Pink Campaign, Second Harvest of the Big Bend, Big Bend Hospice Annual Holiday Drive, and the Marine Toys for Tots Foundation.
- ✦ The FLSO newsletter is called *The Advisor*.
- ✦ **Website Features:**
 - 105,500 visitor sessions to FLSO website
 - Offers free online resources (news releases, bulletins, forms, market and trend reports, Florida Statutes, etc.)
 - Frequently Asked Questions section
 - Market Data Reports
 - Florida Eligible Surplus Lines Insurer Financial Data
 - Surplus Lines Information Portal access
- ✦ **Variance Analysis:**
 - 2006: Collected on 71 policies with more than \$16.9 million in unreported premium and nearly \$750,000 in taxes, fees, and penalties.
 - 2007: Collected on 261 policies with more than \$98.3 million in unreported premium and more than \$4.1 million in taxes, fees, and penalties.
 - 2008: Collected on 247 policies with more than \$87.6 million in unreported premium and more than \$4 in taxes, fees, and penalties.



✦ **Compliance Review Program:**

- 2006: Collected on 149 policies with more than \$1.9 million in unreported premium and \$95,652 in taxes, fees, and penalties.
- 2007: Collected on 321 policies with more than \$4.7 million in unreported premium and \$185,833 million in taxes, fees, and penalties.
- 2008: Collected on 354 policies with more than \$4.9 million in unreported premium and \$162,082 in taxes, fees, and penalties.

✦ **IPC Data:**

- Total reported premium: \$773,157,859
- Total reported taxes: \$38,657,893
- Total number of policies processed: 14,453

✦ **Recognition**

- Received a First Place AAMGA Marketing and Advertising Award for the 2008 "When Mother Nature Threatens, Shutter Up" public service billboard campaign.



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Tiffany Varn

IPC Collections Coordinator

Ashlee Weber

Public Information Specialist

Bryan Young

Insurance Analyst



The End

is in the beginning and lies far ahead.

Ralph Ellison

*Florida
Surplus Lines
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